ONE HUNDRED SIXTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM
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July 19, 2000

BY FACSIMILE

The Honorable Jacob J. Lew
Director
Office of Management and Budget
Old Executive Office Building
Washington, D.C. 20503

Dear Director Lew:

Thank you for your June 21, 2000 letter responding to my March 22nd letter about the President's March 15th report to Congress, prepared by the Office of Management and Budget (OMB), entitled "Federal Climate Change Expenditures Report to Congress." The 2000 Foreign Operations, Export Financing, and Related Programs Appropriations Act required this report to be submitted simultaneously with the President's Budget, which was transmitted to Congress on February 7th. I hope you can appreciate that both the late report to Congress and the late OMB reply make the information less useful to Congress in its evaluation of the President's $4.4 billion budget request for climate change funding in Fiscal Year 2001.

Regrettably, even as updated by your June 21st reply, the President's report contains few credible output performance measures linking specific appropriation accounts to quantifiable reductions in greenhouse gas (GHG) emissions or other performance measurements, and no actual outcome (results) measures, e.g., showing how such GHG emission reductions will benefit human beings.

In my March 22nd letter, I supplied a table, based on the President's March 15th report, compiled by OMB, showing 72 line item appropriation accounts related to requested climate change spending, and asked OMB to fill in the missing performance data. The completed table OMB returned to me on June 21st shows only 68 appropriation accounts. Why did OMB decide to eliminate four line item appropriation accounts from its reply?

More significant is the fact that, out of 68 appropriation accounts included in OMB's reply, only six appropriation accounts -- including 4 Department of Energy (DOE), 1 Agency for International Development (AID), and 1 of the Environmental Protection Agency's (EPA's) 4 accounts -- contain any output performance measures that address the central issue, i.e., how many tons of GHGs will be reduced or avoided as a result of the taxpayer's investment. Only two of these appropriation accounts also contain other output performance measures. The fact that 62 of the 68 appropriation accounts contain no actual output or outcome measures is incredible. Instead, there is either no attempt to identify a performance measure or only immeasurable goals, such as "assist," "better," "complete integration," "complete plans," "conduct," "contribute," "demonstrate," "develop," "emphasize," "establish," "evaluate," "expand," "facilitate," "implement," "improve," improve competitiveness, increase lending, "increase projects," "issue," "lead," "perform," "prepare," "present," "strengthen," "support," "test," "train," and "transfer."

Put another way, out of scores of performance "goals," only 13 attempt to quantify the payoff in terms of GHG emissions reduced or avoided. For example, why are there no output or outcome performance measures for all 22 Department of Agriculture funding requests and for EPA's proposed new Clean Air Partnership Fund? How does the Administration expect Congress to act favorably on funding requests without any expected results?

OMB's June 21st reply curiously does not include any performance information for the Climate Change Technology Initiative (CCTI) Tax Incentives line item appropriation account, stating "Not required by GPRA." Even if the Government Performance and Results Act (GPRA) does not require performance measures for tax incentive proposals, the 2000 Foreign Operations, Export Financing, and Related Programs Appropriations Act reporting requirement did not intend such an exemption.

Furthermore, some -- perhaps most or all -- of those output measures in OMB's table are not credible. For example, for the DOE's Energy Supply/Nuclear Supply/CCTI line item appropriation account, OMB states: "2001 -- And beyond, this DOE program will help offset carbon emissions of more than 150 million metric tons of carbon equivalent [mmtce] per year by helping to ensure the continued safe operation of nuclear power plants." Using Energy Information Administration (EIA) and Nuclear Regulation Commission (NRC) data, I demonstrated in August 18, 1999 and December 14th letters to DOE Deputy Secretary T.J. Glauthier (see enclosures), that the estimate of annual emission reductions of 150 mmtce is based on two dubious assumptions: (1) that the CCTI nuclear program would extend the operating life of *all* nuclear plants, not just those scheduled for retirement over the next 20 years; and (2) that the appropriate baseline for estimating avoided emissions is the "average emissions rate" of the *current* mix of coal- and natural-gas-fired electricity rather than the *changing future* mix, in which combined-cycle gas plants increasingly displace older coal-fired facilities.

On March 21, 2000, I requested that EIA update its 1999 report entitled "Analysis of the Climate Change Technology Initiative." Among other issues, I specifically asked EIA to evaluate the Administration's claims about the CCTI nuclear program, since that is the only climate change technology program that appears to deliver bang for the buck. EIA's updated, April 10th analysis states:

> In evaluating the future impact on carbon emissions, the replacement fuel for retiring nuclear plants is of key importance. Given the technology costs and fuel prices expected over the next 20 years, they would most likely be replaced by natural gas-fired, combined cycle plants that have relatively low carbon emissions. If all current nuclear plants were replaced by new natural gas-fired, combined-cycle plants, annual carbon emissions would be about 62 million metric tons higher (p. 92).

In other words, if the CCTI nuclear program extends the life of *all* nuclear plants, avoided emissions would be about 62 mmtce -- less than half the amount claimed by the Administration. If the CCTI program extends the life of only those plants *scheduled for retirement*, then the quantity of avoided emissions would be substantially lower.

EIA's study casts doubt on the emission reduction output measures presented in the President's March 15th report and your June 21st enclosure. For example, a key component of the CCTI program is the $4 billion, five-year package of tax incentives for investment in renewable energy technologies, energy efficient products and homes, and alternative vehicles. According to EIA's analysis, the proposed CCTI tax incentives would reduce carbon emissions by a mere 0.22 percent (3.7 million metric tons) in 2005 and only 0.07 percent (1.3 million metric tons) in 2010 (p. xiii). This does not seem to be a reasonable return on investment for $4 billion.

I am well aware of the Administration's argument that EIA underestimates the emissions-reduction potential of the CCTI tax credits by ignoring the "synergies" between those incentives and the CCTI research and development (R&D) programs. Whether or not the R&D programs would significantly increase the potency of the tax credits, EIA spoke with candor and common sense when it stated: "Generally, EIA is not able to link research and development expenditures directly to program results or to separate the impacts of incremental funding requested for fiscal year 2001 from ongoing program expenditures" (p. 1). I see no reason to suppose that the analytic capabilities of other agencies surpass those of EIA.

Therefore, I see no reason to put much stock in certain Administration claims, e.g., that EPA's buildings programs will reduce GHG emissions by 15 mmtce by 2001, that DOE's solar and renewable energy programs will reduce GHG emissions by 20 mmtce in 2010, or that DOE's Industries of the Future programs will reduce GHG emissions by 29 mmtce in 2010. Indeed, without a finer breakdown of each appropriation account into its component program elements and the estimated emissions reductions from each element, outside analysts have no way to check whether the alleged aggregate results are even in the ballpark.

Beyond these credibility problems, there is the more fundamental question of whether the CCTI programs provide any measurable protection from the potential hazards of global climate change. As President Clinton stated, on August 3, 1993, when he signed GPRA into law, policymakers need to ask:

> [D]oes this work, is it changing people's lives for the better, can we say after we take money and put it into a certain endeavor that it was worth actually [taking] away from the taxpayers, [and putting] into this endeavor, and their lives are better? These may seem like simple questions, but for decades they haven't been answered in a very satisfactory way. We are determined to do that.

How disappointing, then, that neither the President's March 15, 2000 report nor your June 21st enclosure provides any **ultimate outcome** performance measures linking the proposed expenditures to measurable improvements in public health and safety. Indeed, neither document provides any **intermediate outcome** performance measures linking the proposed expenditures to measurable reductions in average global temperature.

Jerry Taylor of the Cato Institute raised this issue at our May 20, 1999 joint hearing, "Global Climate Change: the Administration's Compliance with Recent Statutory Requirements," in which OMB's Acting Deputy Director for Management Deidre Lee also testified. Mr. Taylor presented the following argument. According to the world's most advanced climate model, full compliance with the Kyoto Protocol by all Annex I countries would reduce average global temperatures by 0.07 degrees Celsius by the year 2050. Since the U.S. emits 20 percent of the world's greenhouse gases, U.S. compliance with the Kyoto Protocol would reduce global temperatures by 0.014 degrees Celsius. The Administration estimates that the CCTI programs would reduce greenhouse gas emissions by about 450 mmtce, or roughly 65 percent of the U.S. Kyoto target. Thus, even if the Administration's claims about the CCTI programs are completely accurate, those programs would reduce average global temperature by only .0091 degrees Celsius (16/1,000ths of a degree Fahrenheit) below where they otherwise would be by the year 2050. That infinitesimal reduction in average global temperatures would be too small for scientists even to measure. It would also produce no detectable benefits for people or the planet.

Therefore, I am inclined to suspect that the real purpose of the CCTI is not environmental protection but politics, i.e., growing the greenhouse gravy train. The billions in tax incentives and R&D investments would not affect global climate one whit. However, those billions would be exceedingly useful in building a climate change lobby -- a coalition of businesses, consumers, scientists, and bureaucrats with a vested interest in demanding an ever-expanding Federal role in energy markets and supporting coercive conservation policies like the Kyoto Protocol.

Unfortunately, it is probably too late in the appropriations process for OMB to furnish the mostly missing performance information to justify the Administration's huge climate change funding request. In any case, I hope that OMB will do a better job next year in identifying output and outcome performance measures for each line item appropriation account funding request and that this information will be provided in the President's Budget or an accompanying document delivered on the same day as the Budget. I believe that Congress and the American taxpayers deserve to know what results to expect before Congress even considers appropriating Federal funds.

Sincerely,

David McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs

Enclosures

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich
The Honorable Joe Knollenberg
Senator Don Nickles
Senator Christopher S. Bond
Senator Robert C. Byrd
Senator Larry E. Craig
Senator Chuck Hagel

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August 18, 1999

BY FACSIMILE
The Honorable T.J. Glauthier
Deputy Secretary of Energy
Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Deputy Secretary Glauthier:

Thank you for the Department of Energy's (DOE's) July 15, 1999 letter responding to the questions Senator Don Nickles and I sent you on May 27th about DOE's role in global climate change policy and other issues discussed at the May 20th joint House-Senate hearing. In the present letter, I will offer some comments and raise additional questions about some of DOE's responses.

In your response to Question 1, you acknowledge the incompleteness of the Office of Management and Budget's (OMB's) search pursuant to a Congressional subpoena on global climate change policy. These documents might more fully explain the Clinton Administration's decision to increase its five-year spending request for climate change policy from +$5.0 billion in October 1997 to +$6.3 billion in February 1998. Other agencies complied with my request for a full document search, including multiple drafts and incoming memos or e-mails. I remain deeply concerned that OMB was not fully responsive to the subpoena but appreciate your candor in acknowledging that fact now.

In your response to Question 4, you state that "Program elements of CCTI [Climate Change Technology Initiative] should not be evaluated *solely* on the basis of the Federal cost per ton of the resulting emission reductions" (emphasis added). While that statement makes perfect sense, the same cannot be said of DOE's contention that the per-ton cost of emissions reduced is not "*a* valid indicator of program effectiveness" (emphasis added).

The Administration either stands by the Council of Economic Advisers' (CEA's) $14 to $23 per ton estimate of the cost of implementing the Kyoto Protocol, or it does not. If it does, then the "Janet Yellen Test" provides *a* benchmark, even if not the *sole* benchmark, for evaluating the cost-effectiveness of the CCTI programs. Indeed, common sense suggests that voluntary programs (such as the CCTI) should cost less than mandatory programs (such as those required for full implementation of the Kyoto Protocol). Therefore, it is disappointing that, except for the Fossil Energy carbon sequestration program, DOE provides no cost per-ton estimates for the CCTI programs.

In your response to Question 6a, you state that DOE does not concur with the Energy Information Administration's (EIA's) estimate that the CCTI tax credits for wind and biomass generation would reduce carbon emissions in 2010 by a mere 0.17 percent. However, you do not reveal what DOE believes to be the correct estimate. Is that because DOE considers it "inappropriate to evaluate the benefits of the [CCTI] proposals for only one year," as you state in the answers to Questions 6b and 6c? Please provide emission reduction estimates for each CCTI tax credit over multi-year periods, specifically 2000-2010, 2000-2015, and 2000-2020. For perspective, please also provide estimates of total emissions during those periods under a business-as-usual scenario, and the relative (percentage) reduction of emissions attributable to the CCTI tax credits.

In your response to Question 8, you state that if the CCTI nuclear program "added one year to the life of all [nuclear power] plants now scheduled for retirement within the next 20 years, it would result in an emissions reduction of 150 million tons of carbon equivalent." Although I assumed the correctness of this estimate in the May 27th letter, I now question whether it is accurate.

Electric generation from nuclear power is projected to be about 659 billion kilowatt hours (kWh) in the year 2000 (EIA, *Annual Energy Outlook 1999*, Table A-8). According to EIA, retirements during the following two decades are projected to decrease nuclear generation to 359 billion kWh – a reduction of 300 billion kWh (*AEO99*, Table A-8). This is the maximum amount of generation that avoiding nuclear retirements would save over the next two decades.

In year 2000, coal plants are projected to generate 1,931 billion kWh (*AEO99*, Table A-8) and emit 519 million metric tons of carbon (*AEO99*, Table A-19). Therefore, the emissions rate for coal generators is 0.30 million tons of carbon per billion kWh (rounded up). If the extended nuclear generation replaces only coal plants, then the carbon emissions avoided will be 0.3 x 300 = 90 million metric tons (mmt) – three-fifths of the amount DOE projects. If, in fact, extended nuclear generation only avoids the construction of advanced combined cycle gas plants that meet new electricity demand, avoided emissions will be significantly less, closer to 30 mmt, or about one-fifth of the amount DOE projects (*AEO99*, Tables A-8 & A-19).

EIA's estimate of the reduction in nuclear generating capacity due to scheduled plant retirements over the next 20 years (*AEO99*, Table A-9) tracks closely with that of the U.S. Nuclear Regulatory Commission (*Information Digest*, NUREG-1350, Vol. 9, Table 12, p. 46). Please explain how DOE arrived at its estimate of 150 mmt of carbon equivalent avoided. Did DOE assume that all avoided capacity would be coal-based electricity? Did DOE assume that the CCTI nuclear program would extend the operating life of all nuclear power plants or only those scheduled for retirement in the next 20 years?

In your response to Question 9, you state that DOE does not concur with EIA's estimate that a large percentage of CCTI tax credits would go to "free riders." However, you did not respond directly and fully to Question 9b, which asked whether DOE has its own estimate of the percentage of free riders for each tax credit. Unless DOE has made its own estimates, and is prepared to share them, it is difficult to put much stock in DOE's criticism of EIA's estimates. Therefore, I am obliged to restate my question. Does DOE have its own estimates of the extent to which CCTI tax credits would go to free riders? If not, why not? If so, please provide those estimates to the Subcommittee.

Pursuant to the Constitution and Rules X and XI of the House of Representatives, I request that DOE provide detailed responses to the questions raised above. Please provide the information requested by Friday, September 10, 1999 to the House Subcommittee staff in room B-377 Rayburn House Office Building. If you have any questions, please contact Subcommittee Staff Director Marlo Lewis at 225-1962.

Thank you in advance for your attention to this request.

Sincerely,

David McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth
Natural Resources and Regulatory Affairs

cc: The Honorable Frank Murkowski
The Honorable Jeff Bingaman
The Honorable Larry Craig
The Honorable Dan Burton
The Honorable Dennis Kucinich

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December 14, 1999

BY FACSIMILE

The Honorable T.J. Glauthier
Deputy Secretary of Energy
Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Deputy Secretary Glauthier:

Thank you for the Department of Energy's (DOE's) December 7, 1999 letter responding to my letter of August 18th regarding DOE's Climate Change Technology Initiative (CCTI) programs. In the present letter, I will comment on DOE's responses.

DOE continues to provide no cost-per-ton estimates for its CCTI programs, arguing that "an accurate assessment of the economic worthiness of such Federal efforts depends on a full accounting of all the resulting costs and benefits, not just those reflected in greenhouse gas emission reductions." I agree; but, surely, in the case of tax credits designed and proposed for the specific purpose of reducing greenhouse gas emissions, the cost per ton of those credits must be considered an important piece of information, essential to any "full accounting of all the resulting costs and benefits." By failing to provide such information, DOE confirms my judgment, based largely on the analysis of DOE's Energy Information Administration (EIA), that the CCTI tax credits are not a cost-effective means of addressing the presumed problem of global warming.

Although you acknowledge that "the Treasury Department's estimate of cumulative savings [from the CCTI tax credits for wind and biomass generation] is not inconsistent with the EIA estimate" of a mere 0.17 percent emissions reduction in 2010, you confuse the issue by comparing apples (cumulative emission reductions over a multi-year period) to oranges (total emissions in a single year). You state: "According to Treasury Department estimates, the CCTI tax incentives for electricity produced from wind and biomass will reduce carbon-equivalent emissions of greenhouse gases by 15-23 million metric tons over the expected life of the investments that directly benefit from the incentives. This quantity of emissions is roughly 1 percent of expected U.S. emissions of greenhouse gases in 2010 under a business-as-usual scenario." However, a reduction of 15-23 million metric tons is undoubtedly far less than 1 percent of total cumulative carbon emissions over the life of the targeted investments. It is disappointing that your answer is not fully responsive to my question, as I specifically asked for "the relative (percentage) reduction of emissions attributable to the CCTI tax credits" over "multi-year periods," such as 2000-2010, 2000-2015, or 2000-2020.

The one CCTI program that appears to be a "winner" for the taxpayer (if, but only if, we grant that global warming is a problem and that reducing average global temperatures by a non-measurable few hundredths of a degree is a real benefit) is the CCTI nuclear program. Supposedly, that program would avoid 150 million metric tons of carbon emissions at a cost of "only" $5 million. In my August 18th letter, I challenged that estimate. Specifically, I asked whether DOE based its estimate on two unjustified assumptions: (1) that all avoided new electricity-generating capacity would be coal-based rather than combined-cycle gas plants; and (2) that the CCTI nuclear program would extend the operating life of all nuclear plants, not just those scheduled for retirement over the next 20 years.

You admit that "the estimate of 150 million metric tons was based on extending the operating life of all nuclear plants and not just those scheduled for retirement in the next two or three decades." Although DOE did not assume that all avoided capacity would be coal-based electricity, DOE based its estimate on "the average emissions" from coal- and natural-gas-fired electricity in 1995, and used this "average emission rate" for calculating the 20-year emissions reduction of the proposed nuclear program. In other words, DOE assumed that the current mix of coal- and natural-gas-based electricity would not change over the next 20 years. But, that assumption is incorrect. The mix is projected to shift in favor of natural gas, as combined-cycle gas plants are built to meet new electricity demand and replace older coal-fired facilities. Therefore, I am forced to conclude that DOE's estimate of carbon emissions avoided by the CCTI nuclear program is not credible.

Although you admit that "DOE did not develop estimates of the number of 'free riders' likely to benefit from the Administration's proposed tax incentives," you continue to reject EIA's estimate of the percentage of free riders, explaining that "DOE worked with the Treasury Department to design the tax credits in such a way as to minimize such free riders." This explanation is inadequate. I am obliged to repeat what I wrote in my August 18th letter: "Unless DOE has made its own estimates, and is prepared to share them, it is difficult to put much stock in DOE's criticism of EIA's estimates."

Finally, I want to raise a more serious matter than the technical issues discussed above. DOE took almost four months to respond to four uncomplicated questions about the CCTI programs. During this time, House and Senate appropriators voted to increase DOE's funding for those programs from $0.9 billion in fiscal year (FY) 1999 to $1.0 billion in FY 2000. Timely responses to my August 18th letter would have clarified the following facts: (1) DOE refuses to calculate, or share its estimate of, the cost per ton to the Treasury of the proposed CCTI tax credits; (2) EIA's analysis of the wind and biomass tax credits as providing negligible greenhouse gas reductions is correct; (3) DOE's estimate of the CCTI nuclear program's carbon emissions reductions rests on faulty assumptions and is not credible; and, (4) DOE refuses to provide its own numbers or calculations to defend its criticism of EIA's "free rider" estimates.

In short, timely responses might have jeopardized the funding increase for DOE's CCTI programs. I am forced to conclude that DOE took so long to respond to my August 18th letter in order to "run the clock" on the appropriations process. I will certainly share this concern with my colleagues on the Appropriations Committee.

If you have any questions about this letter, please contact Subcommittee Staff Director Marlo Lewis at 225-1962.

Sincerely,

David McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth
Natural Resources and Regulatory Affairs

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich
The Honorable Ralph Regula
The Honorable Frank Murkowski
The Honorable Jeff Bingaman
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